SENATE TAXATION
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SB 556 Handouts
Presented by Tanya Ask
Blue Cross and Blue Shield of Montana
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1) **National Association of Insurance Commissioners (NAIC) risk based capital (RBC) purpose**

2) **RBC overview prepared by Chris Manger**

3) **Five-year Blue Cross and Blue Shield of Montana Underwriting Experience**

4) **Hypothetical Illustration of Three Companies**

The National Association of Insurance Commissioners (NAIC) addressed insurers minimum solvency capital threshold through risk based capital or RBC. A Health Service Corporation's (HCS) management team and Board must address its target range for capital in the context of ongoing viability as a Montana business enterprise.

Based on the NAIC's own documented record, RBC was designed solely for the purpose of assessing whether an insurer is inadequately capitalized, and it is generally ill-suited to the task of assessing whether a financially health insurer's capitalization level is optimal or excessive. It is strictly a retrospective metric based on industry-aggregate assumptions – for Montana health service corporations, that means measurement against national assumptions. It does not, by design incorporate factors such as the insurer's company and community-specific business risks, future strategies, growth plans or investment needs.

During the RBC standard development for life and health insurers in the early 1990s, the NAIC made repeated statements affirming their intention that RBC represents a **MINIMUM** level of capital:

"The (Life RBC Working Group) discussed problems associated with using RBC results for other purposes...Tying other regulatory provisions to surplus amount above the RBC thresholds is problematic in that the formula was not developed to measure financial strength or capital adequacy beyond a minimum regulatory requirement."
NAIC Proceedings 1993, 3rd Quarter, page 228

"The formula that is proposed is a threshold capital formula rather than a target capital formula. It has been designed to identify companies with capital levels that require regulatory attention. The formula has not been designed to differentiate among adequately capitalized companies. Therefore, it would be entirely inappropriate to use this formula to rate or rank adequately capitalized companies."
NAIC Proceedings 1992 4th Quarter, page 557

Provisions fron the NAIC Model Act

- As stated in Section 2 of the NAIC Model Act, "an excess of capital (i.e. net worth) over the amount produced by the risk-based capital requirements contained in the Act and the formulas, schedules and instructions referenced in this Act is desirable in the business of health insurance. Accordingly, health organizations should seek to maintain capital above the RBC levels required by this Act. Additional capital is used and useful in the insurance business and helps to secure a health organization against various risks inherent in, or affecting, the business of insurance and not accounted for or only partially measured by the risk-based capital requirements contained in this Act."

- As stated in Section 8 of the NAIC Model Act, a Plans' RBC calculation is "intended solely for use by the commissioner in monitoring the solvency of health organizations and the need for possible corrective action with respect to health organizations and shall not be used by the commissioner for ratemaking nor considered or introduced as evidence in any rate proceeding nor used by the commissioner to calculate or derive any elements of an appropriate premium level or rate of return for any line of insurance that a health organization or any affiliate is authorized to write".